Lionheart
ENERGY CORP.

ANNUAL REPORT
1994

THE CORPORATION

Lionheart Energy Corp. is a public, junior oil and gas company engaged in the acquisition, exploitation, development and exploration of conventional petroleum and natural gas reserves in Western Canada. The Corporation was incorporated in June of 1993 as a private company and went public in November of 1994. Lionheart is actively engaged in the use of leading edge technology, investigative engineering and application of innovative field optimization techniques in it's search for oil and gas. It's principle area of focus is the Chigwell area located in East Central Alberta.

As at December 31, 1994, Lionheart had 8,281,912 common shares outstanding (6,866,690 weighted average) with these shares listed on the Alberta Stock Exchange under the trading symbol "LEO".

Lionheart Energy Corp. is committed to providing enhanced value to our shareholders, stakeholders and staff through our principle business focus within the oil and gas industry.

Annual & Special Meeting

The Annual and Special Meeting of Shareholders of the Corporation will be held on September 28, 1995, at 2:00 p.m. in the Lakeview Room of the Westin Hotel, 320–4th Avenue S.W., Calgary, Alberta. All shareholders are cordially invited and encouraged to attend. If you are unable to attend, please complete and return the accompanying form of proxy.

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Abbreviations

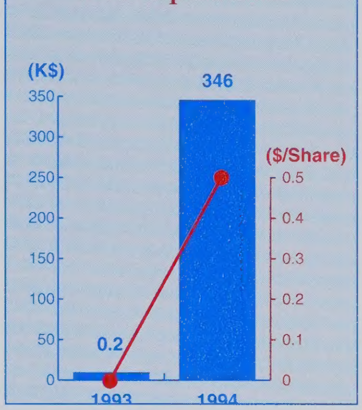
bbl	barrel
bbl/d	barrels per day
BOPD	barrels of oil per day
BOE	barrels of oil equivalent (10 mcf = 1 bbl)
BOEPD	barrels of oil equivalent per day
MBOE	thousands of barrels of oil equivalent
mbbl	thousands of barrels
mcf	thousands of cubic feet
mcf/d	thousands of cubic feet per day
mmcf	millions of cubic feet
mmcf/d	millions of cubic feet per day
bcf	billions of cubic feet
WTI	West Texas Intermediate

CORPORATE HIGHLIGHTS

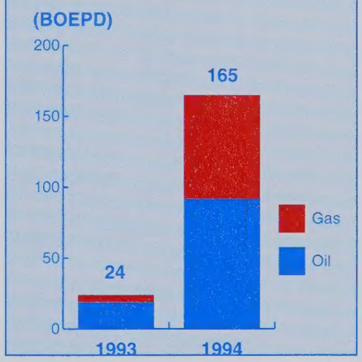
FINANCIAL *(thousands of dollars, except per share data)*	1994 (12 months)	1993 (7 months)
Gross Production Revenue	$ 1,025	$ 70
Cash Flow from Operations	346	0
per share (basic)	0.05	–
per share (fully diluted)	0.04	–
Net Earnings	124	(7)
per share (basic)	0.02	(0.00)
per share (fully diluted)	0.015	(0.00)
Capital Expenditures	2,433	408
Total Assets	3,061	547
Bank Indebtedness	600	0
Other Liabilities	618	65
Shareholder Equity	1,843	482
Outstanding Common Shares		
weighted average (basic)	6,866,690	2,649,480
at Dec 31st (basic)	8,281,912	4,356,912

OPERATING	1994	1993
Production (Calendar Day Basis)		
Crude Oil and liquids (bbl/d)	92	19
Natural Gas (mcf/d)	721	56
Barrels of oil equivalent (BOEPD)	165	24
Reserves (proved and probable)		
Crude Oil and liquids (mbbl)	1,409	212
Natural Gas (mmcf)	6,686	2,140
Barrels of oil equivalent (mBOE)	2,078	426
Present Value of Reserves		
discounted at 15% before tax ($000's)	11,542	2,455
per share (weighted average)	$ 1.68	$ 0.93
Land (net acres)		
Developed	6,048	3,140
Undeveloped	2,117	360
Average Prices		
Crude oil and liquids ($/bbl)	19.15	12.30
Natural Gas ($/mcf)	1.83	2.54

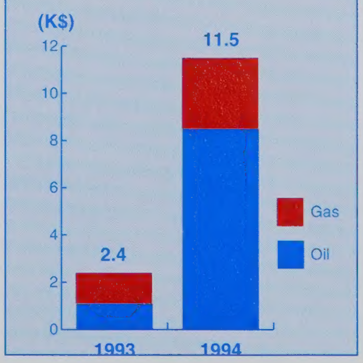
Cash Flow from Operations



Average Daily Production



Present Value of Reserves



PRESIDENT'S REPORT

To The Shareholders

In 1993 Lionheart emerged as an acquisition company by positioning itself in the Chigwell area of Alberta. In 1994 we refocused from acquisitions to exploitation and added an element of development in 1995. These three strategies; acquisitions, exploitation and development/exploration will become the basis and the means by which we will sustain our growth in the near term.

1994 Operational Highlights:

- Lionheart raised a net total of $1.28 million dollars in new equity private placements in 1994 increasing it's number of outstanding shares from 4.4 million to 8.3 million. The shares were placed in the range of $0.175 to $1.30 per share, increasing over the course of the year.

- An amalgamation of Early Resources Ltd. and Lionheart Energy Corp. was completed in November, 1994. The amalgamation allowed Lionheart to become a publicly traded company on the Alberta Stock Exchange (Trading Symbol LEO) providing liquidity to it's shareholders.

- The Capital expenditure program was $2.4 million: $1.1 million in additional property acquisitions in our core Chigwell area and $1.3 million in oil and gas development programs. The development program consisted of five crude oil frac's, well re-perforations, mechanical stimulations, chemical treatments, and two gas well connections. In addition, preparations were made for our 1995 program consisting of engineering studies on our Chigwell Horizontal Development Program and integrative evaluations of the Glauconite, Viking B Unit, Belly River and Leduc formations.

- The program and studies have resulted in a Proved and Probable Reserves increase from 426,000 BOEs as at January 1, 1994 to 2,078,000 BOEs as at January 1, 1995. This represents an increase of approximately five times in reserves. The acquisition cost for 540 mBOE was $2.00 per BOE compared to the 1994 Industry average which was in the order of $5.85 per BOE. Our Reserve Additions Program was also successful, resulting in the addition of 1,200 MBOEs at an average finding cost of $1.00 per BOE.

- Lionheart's Net Asset Value increased from $2.5 million in value (15% discounted, escalated prices, 50% risked Probable reserves) to $10.8 million in 1994, an increase of 340%.

- Lionheart production increased from an annual average of 24 BOEPD (19 bbls of oil and NGLs and 56 mcf of gas per day) to 165 BOEPD (92 bbls of oil and NGLs and 720 mcf of gas per day). Exit rates for 1994 were 110 bbls of oil and NGLs and 1.5 million cubic feet of gas per day or 260 BOEPD.

1994 Financial Highlights:

- Gross Oil and Natural Gas Sales Revenue totaled $1,025,043 for 1994, a substantial increase (1360%) over the $70,000 received in 1993.

- Oil prices averaged $19.15 in 1994 versus $12.30 in 1993, an increase for our medium crude blend of 55%. Gas prices fell from an average of $2.54 per mmcf to $1.83 per mmcf in 1994, a decrease of 28%.

- Cash Flow from Operations was $345,810 versus $222 in 1993. 1994 Cash Flow per share was $0.05. The fourth quarter 1994 exit rate was an annualized $571,000 or $0.08 per share.

- Net Income for 1994 was $124,154 versus a loss of $7,046 for 1993. This translates to an earning of $0.02 per share outstanding.

The Evolution of Lionheart:

At the time of writing, Lionheart is moving through an evolutionary phase from being an acquisition company to an exploitation, development and exploration company. To enable this movement, there has been a shift in key management positions, procurement of additional funds to support our 1995 program and a refinement of our strategic direction to help reshape our company and be more aligned for the rapidly changing environment in which we do our business.

In 1994, we accomplished some of our key goals, but failed to accomplish others. Our accomplishments were significant increases in production and reserves, creation of developmental opportunities, providing liquidity to our private shareholders through a reverse take-over onto the Alberta Stock Exchange, and significant enhancement of shareholders' value.

What we failed to do was: meet our projected cash flow target of $600,000 before G & A (we managed to make $500,000); drill our Chigwell horizontal re-entry well in the fourth quarter; place sufficient new equity in the form of common and flow through shares that would allow us to support our 1995 acquisition and development program, and meet our fourth quarter production exit rate of 325 BOEPD (we did 260 BOEPD out of the fourth quarter, 1994 with an average 332 BOEPD in the first quarter, 1995).

What we learned from this is that how you do something is as important as what you do. What we wanted to do was to be realistic in our forecasts and projections so that we could develop a trusting relationship with our investors. Our word was to be our bond, and in breaking our word (failing to meet our programs and forecasts) we felt we eroded some confidence in those who entrusted us with their funds or worked with us at Lionheart. We wanted our work to speak for itself and not to be promotional about our accomplishments through the publication of what, in hindsight, were unrealistic expectations.

In short, we wanted to set up a framework from which we could be successful in the eyes of our shareholders, stakeholders and ourselves; financially, technically, ethically and spiritually.

How we did this was to rethink our personal and corporate purpose, values and principles (they are shown on the second to last page of this annual); to forecast what we believed were realistic production and revenue targets and strive to meet them (not necessarily on a quarterly, but on an annual basis); to obtain funding for our acquisition and development programs through a judicious combination of equity (priced with a partnering relationship in mind), debt and cash flow re-investment; and to strengthen the senior management team with those who are committed to the vision that stands behind Lionheart.

Our vision is a to be an exceptional energy company within the oil and gas industry. We will be balanced between conventional oil and gas, operating the majority of what we produce. We will have a balance between three strategies: acquisition (business lead), exploitation (engineering lead) and exploration & development (geologic lead). Each business group will have an inventory of high graded opportunities that will be revolving and evolving continuously. We will be prepared and proactive so that changes in the environment will not seriously threaten nor prevent us from accomplishing our goals and vision in the medium to longer term. The key principles by which we will operate are proactivity, synergy, competency, flexibility and adaptability.

With these five key principles as our operational framework, we will shape and populate our organization, seek and invest funds to achieve our corporate objectives. In time, with

courage, determination, perseverance and grace, we believe Lionheart will become the vision that we hold and desire it to be.

Subsequent Events:

- A management restructuring occurred in early April, 1995 that was in alignment with the evolution of Lionheart Energy Corp. The Board of Directors appointed Rick Hatala, P.Eng as President and Chief Executive Officer and Phil Schreiner as the Corporate Secretary, Treasurer and Chief Financial Officer. In an on-going effort to develop a strong management team for our Company, we have appointed Steve Fagan as the Vice President of Land and Acquisitions effective July 1, 1995.

- A $1.0 million dollar Special Warrants issue was placed in late April with an Institutional Investor in Toronto at a price of $0.70 per warrant. An additional $388,000 was placed in early May with another Insitutional Investor in Toronto at a price of $0.76 per Special Warrant for a total of $1,388,000 dedicated towards our 1995 Capital Program. Each warrant will be converted, once the prospectus clears with the appropriate regulatory agencies, into one common share of Lionheart Energy Corp.

Outlook for 1995:

The outlook for 1995 for Lionheart Energy Corp. is very positive. Within our development program we have 18 oil frac candidates in Chigwell scheduled to commence in the second quarter of 1995.

Our engineering analysis of the field's potential indicates the opportunity for up to nine horizontal, multi-leg, multi-lateral wells drilled within the Glauconite formation. The first horizontal well is programmed for the late third to early fourth quarter. Dependent on success, a five well program could commence in the Winter of 1995 to develop the two sand horizons in the south west corner of our lands.

An engineering study to expand the Chigwell Gas Plant from 1.4 to 5.0 mmcf is currently underway. Start-up of the plant is planned for the fourth quarter of 1995. Although it will have little impact on the volumes of gas production in 1995, the first quarter of 1996 should see significant increases and a balancing of oil and gas volumes and revenues.

Strategically, we will be positioning the Company for further acquisition and merger opportunities to enhance our net asset value and increase our cash flow. In parallel with our acquisition strategy, we will be actively positioning ourselves in other exploitation and development opportunities.

More details concerning our emergence as a strongly positioned junior oil and gas company will be available at our Annual and Special Meeting that is scheduled for 2:00 p.m., September 28, 1995 at the Westin Hotel in Calgary.

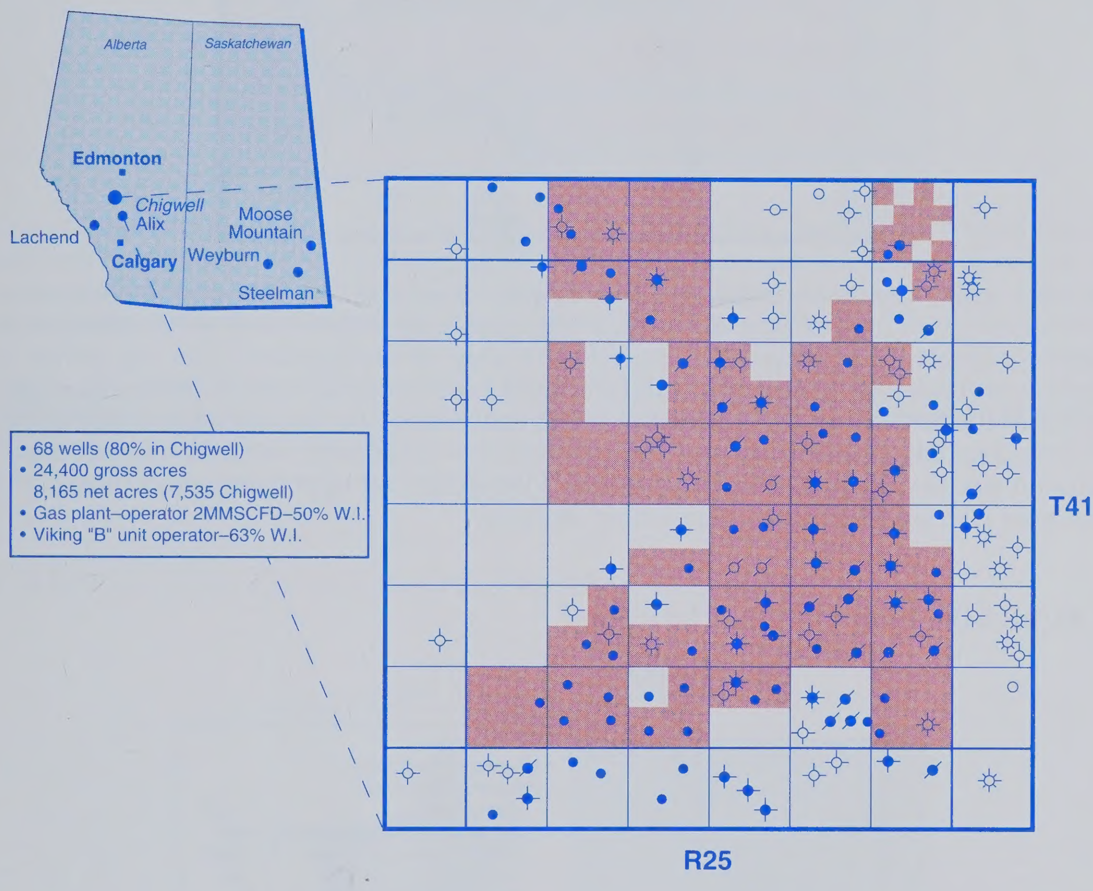
Lionheart Energy Corp., its Board of Directors, Management and staff wish to thank each of the shareholders who supported and believed in the ideas and the values that form the core of our Company. With your continued support, our success will be ensured through 1995.

On behalf of the Board of Directors,

Rick Hatala, P.Eng
President & CEO

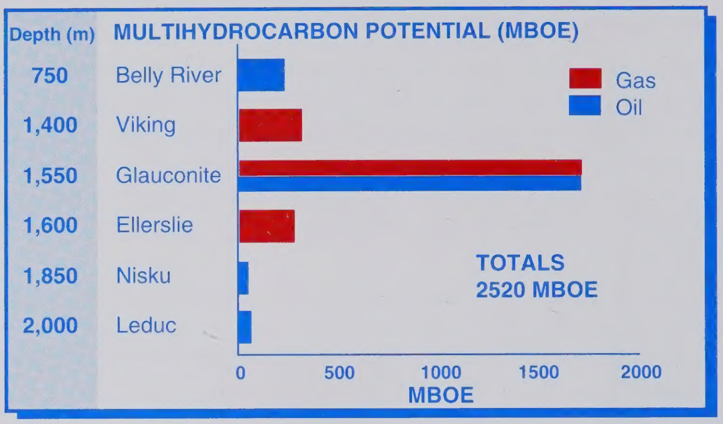
August 1, 1995

Chigwell Core Area Lands



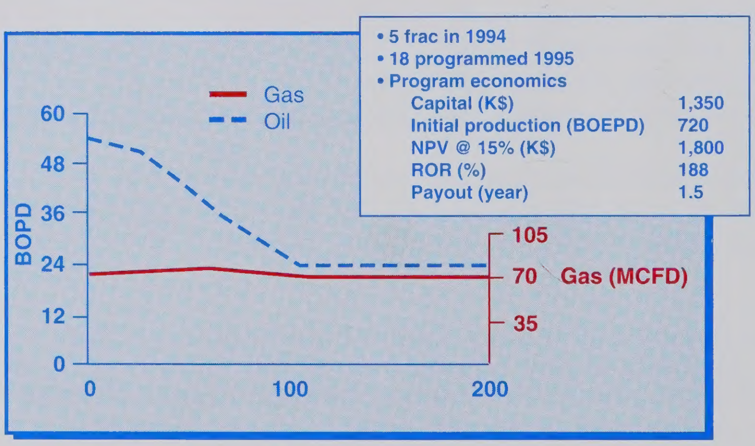
Lionheart continued to expand it's interest in the Chigwell Area of central Alberta in 1993 and 1994 through a series of 22 separate acquisitions. Approximately 92% of Lionheart's net 8,165 acres is situated in Chigwell. Lionheart has an interest and operates the majority of 68 gross wells (48 net wells) within the field; has a 63% interest and operates the Viking B Unit; and has a 49% interest and operates the Chigwell Solution Gas Plant.

Chigwell Area Development–1993 Feasibility Assessment



In early 1993, Lionheart conducted a feasibility assessment of the multi-hydrocarbon potential in the Chigwell area. Although highly geographically focused, each hydrocarbon bearing formation encountered is at a different stage of development. The risk profile of these zones covers the entire spectrum for oil and gas in western Canada; from rank exploration of the Belly River gas bearing formation to potential tertiary recovery of the Viking B Unit. The largest potential was identified in the Glauconite, medium gravity crude, solution gas drive reservoir, followed by the Viking light oil opportunity and thirdly, the potential Ellerslie gas development within the area.

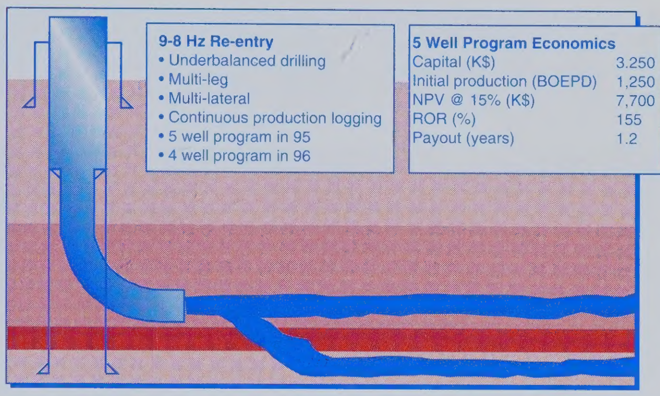
Crude Oil Fracturing Program



Our work in 1994 was focused on determining, through a technical assessment phase, the true Chigwell area potential.

The Glauconite zone at Chigwell is a marine deposit that covers half a township (18 square miles) of land. It contains 52 million bbls of medium gravity crude in place and, after 15 years of production, has only recovered about 5%. In our technical assessment, two strategies gradually evolved; crude oil and sand fracturing technology and, for the south-west corner of the pool, horizontal drilling technology.

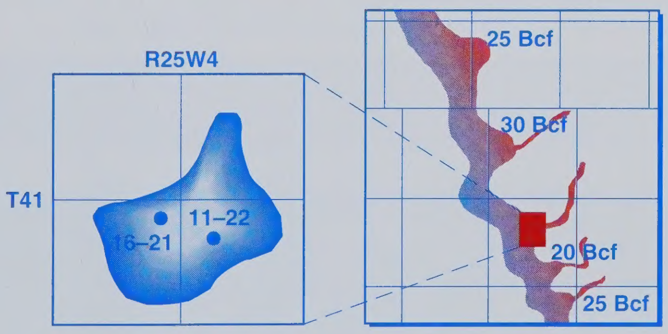
CHIGWELL HORIZONTAL DRILLING PROGRAM



Our engineering study identified 23 crude oil frac candidates, five of which were implemented in 1994 leaving an inventory of 18 crude oil fractures for 1995. In addition, up to 9 horizontal, underbalanced, multi-leg, multi-lateral wells were identified for the Glauconite, the first of which is expected to be drilled in late 1995.

The next Chigwell area to be focused on was the Viking. The Viking B Study showed up to 500,000 bbls of light crude oil could be recovered through well re-completions, waterflood optimization and application of tertiary recovery to the pool. Further study is required in 1995 prior to implementation or inclusion in our corporate evaluations.

CHIGWELL GAS DEVELOPMENT PROJECT



2–8 Bcf Area
1.3 mmcf/d

15–20 Bcf Potential Trend
Lionheart Interest

Two gas well connections were made in late 1994; the 15-36 Glauconite gas well and the 11-22 Ellerslie (BQ) well. The wells were produced at 600 mcf/d and 1,300 mcf/d raw gas, respectively. Further review identified development potential, in excess of our 1993 feasibility assessment, of an estimated 15 to 20 bcf. To support the crude oil frac's, horizontal program, and the Ellerslie non-associated gas development, the Chigwell Gas Plant will be expanded from it's current 1.4 mmcf/d sales gas capacity to 5.0 mmcf/d.

Other Areas:
Through corporate and share exchange acquisitions, Lionheart acquired interests in Lochend and Alix in Alberta and Steelman, Weyburn and Moose Mountain in Saskatchewan. Total interest is less than 5% in these non-core areas. In 1994, Lionheart participated in the drilling of one successful oilwell in Moose Mountain, Saskatchewan. The property was subsequently offset with a horizontal well by Sceptre that produced at initial rates in excess of 1200 bopd. Plans in 1995 by the operator include unitization and the drilling of up to three horizontal wells.

Further seismic interpretation continued in 1994 on our North Colgate prospect. Upon finalization, the prospect will be farmed out retaining an estimated 34% interest in the 1.5 million boe, multi-zone potential anomaly.

Reserves & Production Status:

Effective Date: January 1, 1995–Gross Basis

Type	Proven Producing	Proven Non-producing	Probable Addition (unrisked)	Total Proven & Probable	Possible	Total Company
Oil						
Reserves (MBbls)	220	435	750	1405	410	1815
Production (BOPD)	110	220	400	730	200	1030
Gas						
Reserves (BCF)	2.6	2.8	1.4	6.8	0.4	7.2
Production (MMCF/D)	2.4	0.5	1.0	3.9	0.2	4.1
MBOE						
Reserves	480	715	890	2085	450	2535
Production (BOEPD)	350	270	500	1120	220	1440
Capital						
K$	0	2200	2200	4400	1600	6000
$/BOE	–	3.10	2.50	2.10	3.55	2.40

The Table summarizes our independent engineering firms reserves for Lionheart. The proven producing column shows our current production as of April, 1995, of 350 boepd. The proven-non-producing contains the 18 crude oil frac's and the unconnected gas reserves. The probable category contains five of the nine horizontal wells. This is our corporate evaluation. The possible category on the right contains four additional horizontal wells. The capital expenditures that we estimate are needed to convert reserves into proven producing is shown at the bottom of the table. We hope to add reserves in terms of full cycle development costs for between $2.50 and $3.55 per BOE.

Land Summary

(Gross & Net Acres):

	Developed Lands		Undeveloped Lands	
	AreaGross Acres	Net Acres Acres	Gross Acres	Net Acres Acres
Saskatchewan				
Steelman	320	61	–	–
Weyburn	560	141	320	218
Moose Mtn.	1,440	73	–	–
Total	2,320	275	320	218
Alberta				
Alix	160	8	–	–
Chigwell	14,400	5,714	4,120	1,821
Lochend	320	20	–	–
Judy Creek	800	31	1,920	78
Total	15,680	5,773	6,040	1,899
Total Acres	18,000	6,048	6,360	2,117

Notes:

(1) "Gross Acres" is the number of acres in which Lionheart has an interest.

(2) "Net Acres" is the aggregate working interest which Lionheart holds in the Gross Acres after deducting the working interest held by unrelated parties.

Reserves Reconciliation, Finding & Development Costs:

	Index Category	TOTAL MBOE'S mboe	Capital Invested (K$)	Capital Invested per BOE ($/boe)	Future Additional Capital (K$)	Total Capital (K$)	Total Capital per BOE
1	Opening Balance (Jan. 1, 1994)	426.0	$ 394.1	$ 0.93	—	$ 394.1	$ 0.93
2	Acquisitions	541.1	$ 1,097.7	$ 2.03	—	$ 1,097.7	$ 2.03
3	Reserve Additions	1,270.4	1,172.0	$ 0.92	$ 4,476.0	$ 5,648.0	$ 4.45
4	Reserve Revisions	-105.2					
5	Net Reserves Add'ns (Revisions)	1,706.3	2,269.7	$ 1.33	$ 4,476.0	$ 6,745.7	$ 3.95
6	Production	54.7	100.0	$ 1.83	—	$ 100.0	$ 1.83
7	Closing Balance (Dec. 31, 1994)	2,077.6	[illegible]	$ 1.33	$ 4,476.0	$ 7,2[illegible]	$ [illegible]

Net = 0.837 x Gross before Royalty

Lionheart's reserves reconciliation and finding costs are shown in the table above. Our increase in gross (before royalty) reserves was from 426,000 BOE in 1995 to 2,077,600 BOE in 1994. Our capital expenditures were $2.7 million for an overall finding cost of $1.33. From our engineering evaluation, we need an additional $4.4 million dollars to develop these reserves for a total, all in cost of $3.48 per BOE.

Present Worth of Reserves:

(Escalating Pricing)

Reserves Category	CORPORATION'S INTEREST IN RESERVES: Crude Oil & Natural Gas Liquids (Mbbls) Gross	Net	Natural Gas (MMCF) Gross	Net	MBOE Net	NET PRESENT VALUE OF NET* PRODUCTION INCOME (000'S): Undis-counted 0%	Discounted 10%	15%	20%
Proven Producing	222	180	2,550	2,040	384	$5,399	$4,153	$3,743	$3,411
Proven Non-Producing	37	33	1,407	1,249	158	1,905	1,048	784	582
Proven Undeveloped	398	339	1,369	1,146	454	5,890	4,146	3,568	3,112
TOTAL PROVEN	657	552	5,326	4,435	996	13,194	9,347	8,095	7,105
Probable Additional	752	627	1,360	1,164	743	13,072	8,332	6,893	5,803
GRAND TOTAL	1,409	1,179	6,686	5,599	1,739	$26,266	$17,679	$14,988	$12,908
TOTAL (Probable Value @ 50%)	1,033	866	[illegible]	5,017	[illegible]	$19,730	$13,513	$11,542	$10,007

*Note: ARTC included in above values

The Present Worth of Lionheart's Reserves are shown in the table above. Lionheart's total proven reserves value at 15% discount is $8.1 million with unrisked probable additions at $6.9 million for a total asset value of nearly $15.0 million unrisked. On a risked basis, our value of reserves is $11.5 million for 1994.

MANAGEMENT DISCUSSION & ANALYSIS

RESULTS OF OPERATIONS:

Production Revenues:

Production revenues increased over 13 times from 1993 to 1994 due to acquisitions, five crude oil frac's and the connection of two gas wells in 1994.

Royalties:

Royalties decreased to 15.2% of gross revenue, compared to 19.7% of gross revenue in 1993. The decrease was due to the downward averaging of freehold royalty rates from the 1994 acquisition program.

Production Expenses:

Production expenses during 1994 increased over ten times to $364,923 from $32,910 in 1993. On a per unit basis, production expenses were $6.33 per BOE in 1993 versus $6.45 per BOE in 1994, a 2% increase. The principle reason was the high fixed cost component of the Chigwell Gas Plant when running at less than half capacity in 1994.

Netbacks:	1994	1993
Revenue	19.06	13.95
Royalties	(2.88)	(2.66)
Production Expenses	(6.45)	(6.33)
Netback	**9.73**	**4.69**

General & Administrative Expenses:

General & Administrative Expenses increased to $153,070 from $21,525 in 1993, reflecting higher staffing and office requirements due to Lionheart's increased activity. On a per unit basis, G & A decreased from $4.92 per BOE in 1993 to $2.83 per BOE in 1994.

Interest Expense:

Interest expense increased from $4,064 in 1993 to $27,400 in 1994. The increase reflects increased bank debt levels from the acquisition program in 1994.

Depletion & Amortization:

Depletion and amortization increased from $7,268 in 1993 to $221,656 in 1994. The increase is due to higher volume production and an increased depletion and amortization base.

Cash Flow from Operations & Net Earnings:

Cash flow from operations increased from $222 to $345,810 or $0.05 per weighted average share in 1994 representing a 16 times increase over 1993. The increase is due to higher oil prices and higher production volumes in 1994 versus 1993. Net earnings increased from a loss of $7,046 to a gain of $124,154 in 1994 despite lower gas prices in the fourth quarter of 1994. The company's return on equity averaged 10.2% on earnings and 15.6% on cash flow in 1994.

CAPITAL EXPENDITURES ($K):

	1994	1993
o Producing property acquisitions	$ 1,097.6	$ 365.5
o Mineral property acquisitions	198.2	0.0
o Non-producing properties	67.7	0.0
o Exploration and development	997.6	12.9
o Rental fleet/inventory costs	30.8	0.0
o Other	41.2	0.0
TOTALS	$ 2,433.2	$ 408.5

LIQUIDITY & CAPITAL RESOURCES:

In 1994, Lionheart raised $1,283,134 in equity, re-invested $437,162 from cash flow, $112,904 in cash and increased it's debt by $600,000 to implement it's programs.

BUSINESS RISKS:

The company's principal business risk arises from the fluctuating nature of crude oil and natural gas markets, the uncertain results of capital expenditure programs, and the volatility of interest and exchange rates. The company actively manages risk by concentrating development activities in areas where it has demonstrated technical capability.

The following table illustrates the company's sensitivity to fluctuations in key business conditions on a cash flow and net income basis as at December 31, 1994.

	Net Income $	Funds Flow From Operations $
Increase in crude oil price by $1.00 per Bbl	28,000	29,000
Increase in natural gas by $0.10 per Mcf	50,000	62,000
Increase in value of Canadian dollar compared to U.S. dollar by $0.01	(8,000)	(10,000)

MANAGEMENT'S REPORT

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report, including the financial statements.

Philip R. Schreiner
Secretary, Treasurer

Rick Hatala
President

AUDITOR'S REPORT

To the Shareholders of Lionheart Energy Corp.

I have audited the balance sheet of Lionheart Energy Corp. as at December 31, 1994 and the statements of income and retained earnings and changes in financial position for the year ended December 31, 1994. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and the results of its operations and the changes in financial position for the year ended December 31, 1994 in accordance with generally accepted accounting principles.

M. H. Shaikh Prof. Corporation
Chartered Accountant

Calgary, Alberta
April 21, 1995

LIONHEART ENERGY CORP.

Balance Sheet
As at December 31, 1994

ASSETS

	1994	1993
Current		
Cash	$ -	$ 83,313
Accounts receivable	422,809	33,017
Prepaid expenses	28,076	25,705
	450,885	142,035
Capital assets (Note 3)	2,609,693	404,540
	$3,060,578	$546,575

LIABILITIES AND SHAREHOLDERS' EQUITY

	1994	1993
Current		
Cheques written in excess of cash balance	$ 29,591	$ -
Accounts payable and accrued liabilities	545,289	61,774
Bank indebtedness (Note 4)	600,000	-
	1,174,880	61,774
Provision for site restoration	43,028	3,347
	1,217,908	65,121
Shareholders' equity		
Share capital (Note 5)	1,725,562	488,500
Retained earnings (deficit)	117,108	(7,046)
	1,842,670	481,454
	$ 3,060,578	$ 546,575

Approved on behalf of the Board:

Director

Director

See Accompanying Notes

LIONHEART ENERGY CORP.

Statement of Income and Retained Earnings

	For the Year Ended December 31, 1994	For the Period June 2, 1993 to December 31, 1993
Revenue		
Petroleum and natural gas sales	$ 1,025,043	$ 70,330
Royalties	(155,587)	(13,844)
Alberta royalty tax credit	17,716	-
Other	4,031	2,235
	891,203	58,721
Expenses		
Production and operating	364,923	32,910
Depletion and amortization	221,656	7,268
General and administrative	153,070	21,525
Interest	27,400	4,064
	767,049	65,767
Net income (loss) before income taxes	124,154	(7,046)
Provision for income taxes	(115,844)	-
Utilization of income tax loss carry forward	115,844	-
Net income (loss)	124,154	(7,046)
Deficit, beginning of year	(7,046)	-
Retained earnings (deficit), end of year	$ 117,108	$ (7,046)
Basic earnings per share	$ 0.02	$ 0.00

See Accompanying Notes

LIONHEART ENERGY CORP.

Statement of Changes in Financial Position

	For the Year Ended December 31, 1994	For the Period June 2, 1993 to December 31, 1993
Operating activities		
Net income (loss) for the period	$ 124,154	$ (7,046)
Add non-cash item		
Depletion and amortization	221,656	7,268
	345,810	222
Net change in non-cash operating working capital	91,352	3,051
	437,162	3,273
Financing activities		
Bank indebtedness	600,000	-
Issuance of share capital	1,436,042	498,120
Share issuance costs	(63,931)	(9,620)
Amalgamation costs	(88,977)	-
	1,883,134	488,500
Investing activities		
Purchase of capital assets	(2,433,200)	(408,460)
Increase (decrease) in cash	(112,904)	83,313
Cash, beginning of year	83,313	-
Cash (deficiency), end of year	$ (29,591)	$ 83,313
Cash flow from operations per share	$ 0.05	$ -

See Accompanying Notes

LIONHEART ENERGY CORP.

Notes to Financial Statements
For the year ended December 31, 1994

1. **Incorporation and amalgamation of operations**

The Company was incorporated under the laws of the Province of Alberta on June 2, 1993 and commenced operations on that date. The Company's primary activity is exploration, development and production of petroleum and natural gas in Canada.

At the Annual and Special Meeting held on November 1, 1994, the shareholders of Early Resources Ltd. ("Early") and Lionheart Energy Corp. approved an amalgamation of the two companies effective November 3, 1994 with operations to be carried out under the name of Lionheart Energy Corp. ("The Company").

Prior to the amalgamation, Early was a junior capital pool listed on the Alberta Stock Exchange and the amalgamation with Lionheart Energy Corp. constitutes its major transaction within the meaning of Alberta Securities Commission Policy No. 4.11 and Circular No. 7 of the Alberta Stock Exchange.

Under the terms of the amalgamation, the 3,300,000 common shares of Early were exchanged for 330,000 common shares of the amalgamated Lionheart Energy Corp. As well, the 3,881,956 common shares of preamalgamation Lionheart Energy Corp. were exchanged for 7,763,912 common shares of the Company.

The amalgamation represents a reverse takeover and is accounted for using the purchase method. The net assets acquired are summarized as follows:

Cash	$ 166,550
Deferred amalgamation costs	32,744
Accounts payable	(25,877)
	$ 173,417

2. **Summary of significant accounting policies**

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are the following:

a) Going concern

In order to satisfy obligations as they become due, the Company will need to obtain sufficient cash flow from operations and/or external financing.

The financial statements have been prepared on a going concern basis which assumes the Company will obtain adequate cash flow. If the Company is unable to continue as a going concern, the amounts realized on disposal of its assets may be substantially below their recorded value.

2. **Summary of significant accounting policies** (continued)

b) Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized into a single Canadian cost centre and charged against earnings as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells and related overhead charges.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on costs accumulated in producing costs centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves, as determined by outside consultants, are converted to a common unit of measure on the basis of their approximate energy content.

The Company periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

The net carrying costs of the Company's oil and gas properties in producing costs centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, financing costs and income taxes. Future net revenues have been calculated using prices in effect at the Company's year end without escalation or discounting.

c) Joint venture accounting

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

2. **Summary of significant accounting policies** (continued)

d) Capital assets

Capital assets are recorded at cost. Amortization is provided at the following rates and methods:

Automotive	20% declining balance
Furniture and fixtures	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	20% straight-line

One half of the above rates are applied to current year additions.

e) Future removal and site restoration costs

Estimated future removal and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated by management in consultation with engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual future removal and site restoration expenditures are charged to the accumulated provision account as incurred.

f) Flow-through shares

The deductions for income tax purposes of resource expenditure related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and equipment and share capital are reduced by the estimated income taxes related to the renounced income tax deductions when the expenditures are incurred.

g) Income taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and amortization recorded in the financial statements.

2. **Summary of significant accounting policies** (continued)

h) Per share data

Per share amounts are calculated based on the weighted average number of common shares outstanding during the year (1994 - 6,866,690; 1993 - 2,649,480). Comparative figures have been restated to reflect the share capital as disclosed in Note 5.

Fully diluted per share data has not been presented since the assumed exercise of options and share purchase warrants, as disclosed in Note 5(c) and (d) would not be materially different from basic per share data.

3. **Capital assets**

	1994			1993
	Cost	Accumulated Depletion and Amortization	Net Book Value	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,754,344	$ 180,210	$ 2,574,134	$ 404,540
Automotive	6,000	600	5,400	-
Furniture and fixtures	5,538	554	4,984	-
Computer equipment	28,180	4,227	23,953	-
Leasehold improvements	1,527	305	1,222	-
	$ 2,795,589	$ 185,896	$ 2,609,693	$ 404,540

The Company has excluded $306,178 (1993 - Nil) worth of petroleum and natural gas properties frfrom depletion since the amounts relate to acquisition and evaluation of unproven properties. The properties are at various stages of exploration and will be transferred to costs subject to depletion as exploration on the related properties are completed.

4. **Bank indebtedness**

Bank indebtedness, representing a revolving loan to a maximum of $1,000,000, is due on demand, bears interest at prime plus 1.25% and is secured by a general security agreement, specific assignment of all contracts of the Company and a fixed and floating charge debenture in the amount of $1,000,000 covering all assets of the Company.

5. **Share capital**

a) Authorized:

1993 and pre-amalgamation
Unlimited number of common shares
Unlimited number of Class "A" shares, issuable in series, number of shares per series, designation, rights, privileges and conditions to be determined by directors prior to issuance

1994 post amalgamation
Unlimited number of common shares

b) Issued and outstanding common shares:

	Number of Shares	Amount
For cash:		
Directors, officers and management	2,250,000	$ 129,410
Private placement	1,791,196	313,460
For purchase of Arbol Energy Ltd.	285,716	50,000
For payment of services received	30,000	5,250
Financing cost	-	(9,620)
Balance, December 31, 1993	4,356,912	488,500
For cash:		
Directors, officers and management	290,000	50,750
Private placement	2,614,000	847,450
For purchase of petroleum and natural gas properties58,000	10,150	
For payment of services received	5,000	875
For cash pursuant to share purchase warrants by directors, officers and management	440,000	110,000
Issue of share purchase warrants	-	4,400
Balance before November 3, 1994 amalgamation	7,763,912	1,512,125
Share exchange on amalgamation with Early Resources Ltd.	330,000	173,417
Shares issued for cash to directors of Early Resources Ltd.	18,000	18,000
Shares issued for cash	85,000	110,500
Flow through shares issued for cash	85,000	110,500
Tax effect of flow-through	-	(46,072)
Share issuance costs	-	(63,931)
Amalgamation costs	-	(88,977)
	8,281,912	$ 1,725,562

5. **Share capital** (continued)

The issued and outstanding common shares prior to amalgamation have been adjusted to reflect the two for one common share exchange upon amalgamation.

During the year, the Company issued 85,000 flow-through common shares at a price of $1.30 per common share for total consideration of $110,500 pursuant to a flow-through private placement. The Company renounced qualifying expenditures totalling $104,000 during 1994. The remaining $6,500 was renounced subsequent to year end.

c) Share purchase options

During the year, the Company granted directors, officers and consultants stock option as follows:

Number of Options	Exercise Price Per Option	Expiry Date
250,000	$0.175	February 15, 1999
362,200	$0.175	July 20, 1999
77,800	$0.50	July 20, 1999

Subsequent to year end, the Company approved share purchase options for directors, officers and consultants for which the Company has reserved 100,000 common shares at a price of $0.80 per common share expiring January 15, 2000.

Pursuant to an Agency Agreement, the Company has granted Yorkton Securities Inc. the option to purchase 10,000 common shares at a price of $1.00 per common share expiring January 20, 1995. As at April 21, 1995, none of these options were exercised.

d) Share purchase warrants

During the year, the Company issued 440,000 share purchase warrants at a price of $0.01 per warrant for total consideration of $4,400. Each share purchase warrant entitled the holder to acquire one common share. Directors and officers of the Company were entitled to exercise 240,000 warrants at a price of $0.175 per common share. Consultants of the Company were entitled to exercise 200,000 warrants at a price of $0.34 per common share. In August 1994, all warrants were exercised for total consideration of $110,000.

6. **Income taxes**

a) The recovery of income taxes in the Statement of Income varies from the amount that would be computed by applying the expected income tax rate of 44.3% (1993 - 18.8%) to net income. The principal reasons for the difference between such "expected" income tax recovery and the amount actually recorded are as follows:

	1994	1993
Computed "expected" income tax expense (recovery)	$ 55,000	$ (1,325)
Increase (decrease) in income taxes resulting from:		
Crown royalties, net of Alberta royalty tax credit	9,345	786
Resource allowance	(46,682)	(764)
Non-deductible charges	98,181	43
Utilization of loss carryforward	(115,844)	-
Non-recognition of tax benefit of current year's loss	-	1,260
	$ -	$ -

b) As further described in Note 7, pursuant to its acquisition of Arbol Energy Ltd., the Company acquired losses for income tax purposes which, in management's view, may be used to reduce future year's income for tax purposes.

These losses expire as follows:

1995	$ 75,833
1996	111,771
1997	74,671
1998	407,338
1999	7,549

7. **Acquisition of Arbol Energy Ltd.**

On November 30, 1993, the Company acquired 98.59% of the issued and outstanding common shares of Arbol Energy Ltd., for cash of $ 60,423 and the issuance of 285,716 common shares of the Company at $0.175 per share for total consideration of $110,423.

The acquisition has been accounted for as a purchase and the results of operations from Arbol Energy Ltd. has been included in these financial statements from the date of acquisition. On December 23, 1993 an Intent for Dissolution was issued by the Alberta Consumer and Corporate Affairs and the company was liquidated and effectively dissolved on that date.

7. **Acquisition of Arbol Energy Ltd.** (continued)

Details of the acquisition are as follows:

Net assets acquired at assigned values:	
Cash	$ 1,256
Net current liabilities	(19,084)
Capital assets	128,251
	$ 110,423
Consideration:	
Cash	$ 60,423
Issuance of common shares	50,000
	$ 110,423

Arbol Energy Ltd.'s primary business was the production of petroleum and natural gas in Canada.

8. **Related party transactions**

During the year, the Company paid consulting fees to companies controlled by officers and directors of the Company in the amount of $78,500 (1993 - $7,000) of which $12,000 (1993 - $1,000) is included in accounts payable at December 31. The consulting fees have been allocated as follows:

Share issuance costs	$ 40,200
Amalgamation costs	20,400
General and administrative expenses.	17,900

During the year, the Company acquired petroleum and natural gas properties from a director of the Company for $5,000 cash and 46,000 common shares at a price of $0.175 per common share for total consideration of $13,050.

9. **Subsequent event**

Subsequent to year end, the Company has entered into an agreement to issue 1,428,600 special share purchase warrants at a price of $0.70 per warrant for a total consideration of $1,000,020. Each special share purchase warrant, if and when issued, will entitle the holder to exchange one warrant of the Company for one common share without further consideration. The common shares of the Company will be issued in exchange of the warrants once the Company has obtained a receipt for a final prospectus from the relevant regulatory authorities. As at April 21, 1995, none of the warrants have been issued.

10. **Comparative amounts**

Comparative amounts have been reclassified to reflect current year's presentation style and the issued share capital after amalgamation.

MISSION STATEMENT (What are we?)

Lionheart Energy Corp. is a public, junior oil and gas company engaged in the acquisition, production, exploitation and development of conventional petroleum and natural gas reserves in Western Canada. We are committed to providing enhanced value to our shareholders, stakeholders and staff through our principle business focus within the oil and gas industry.

VALUES: (How we do it?)

- Lionheart believes that every employee should own a portion of the company
- We are committed to linking compensation with productivity and performance of the organization
- We will ensure that working conditions are pleasant and safe
- We want to treat everyone fairly and with honesty and integrity
- We will strive to honor our commitments
- We will accept our mistakes and learn from them

PRINCIPLES: (What do we believe?)

believe that...

- Corporate Excellence depends upon the development of a vital "spirit" in the organization
- The "spirit" or culture of the company reflects the vision, values and philosophy of its senior management
- A positive corporate identity or image, held by both the public and the employees, is an essential basis for corporate excellence
- The value system of an organization must be ethically sound, understood and accepted by all members of the organization
- There is an essential equality, dignity and worth of an individual, but we recognize differences in ability, capacity and competence.
- The success of a corporation is a responsibility shared by all employees
- Profits of the company should be earned honorably
- A just and equitable balance must be maintained between the rights and well-being of the employees and the rights and well-being of the organization
- A co-operative approach to relations based on trust and open communication is essential
- A participatory and enabling management style that inspires commitment, rather than inflicts it, is the best for the corporation to help achieve excellence
- Technology is our servant and not our master
- We believe in the stewardship or responsible management of the environment, material and technical resources of the world.

CORPORATE INFORMATION

(As At June 30, 1995)

Directors

Rick Hatala Calgary
Philip Schreiner Calgary
Rob Vanderham Victoria
Gary Bourgeois Toronto

Officers

Rick Hatala President & CEO
Philip Schreiner Secretary, Treasurer & CFO
Steve Fagan VP Land & Acquisitions

Bank

Alberta Treasury Branches

Solicitors

Spier Harben

Auditors

M.H.Shaikh Professional Corporation

Corporate Offices

475, 550–6th Avenue S.W.
Calgary, Alberta
T2P 0S2

Telephone: (403) 266-LION (5466)
Facsimile: (403) 266-5617

In Memorial

On December 20, 1994, Graham Gammell suddenly passed away at his home in Priddis, Alberta. Graham was a founder of Lionheart and sat on the Board of Directors since June of 1993. Graham was a guiding light, freely sharing his over forty years of oil and gas experience during the creation and development of Lionheart. His thoughts, insights and illuminations will be missed.

May a deep peace forever rest upon his soul.

Lionheart
ENERGY CORP.

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